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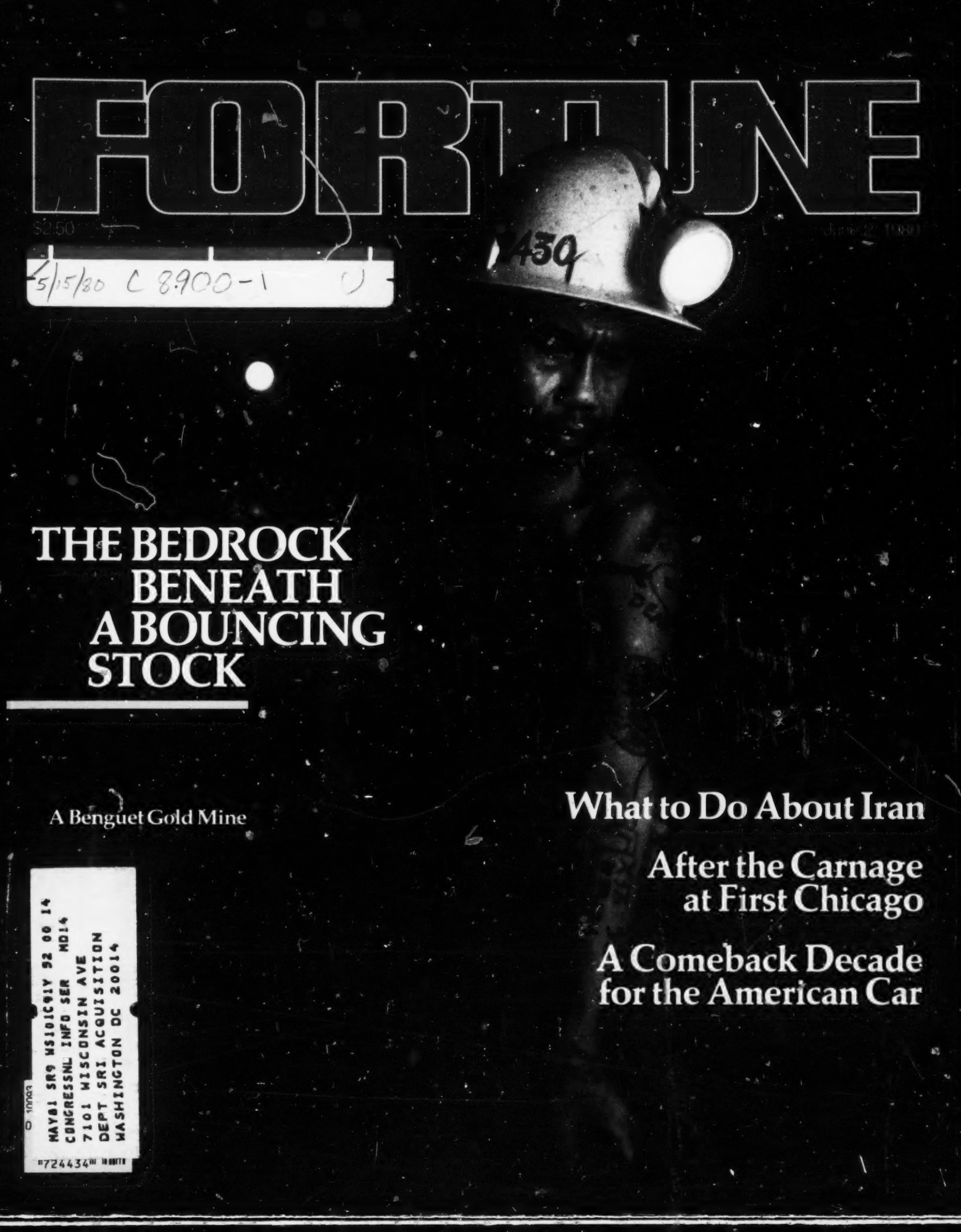

THE BEDROCK BENEATH A BOUNCING STOCK

A Benguet Gold Mine

What to Do About Iran

After the Carnage at First Chicago

A Comeback Decade for the American Car

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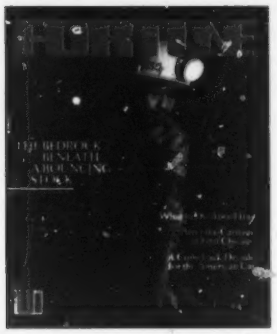

FORTUNE's cover features Rick Smolan's photograph of a tattooed Igorot tribesman at work underground in a gold mine in Acupan, the Philippines. A story on Benguet Consolidated, which owns and operates the mine, begins on page 68.

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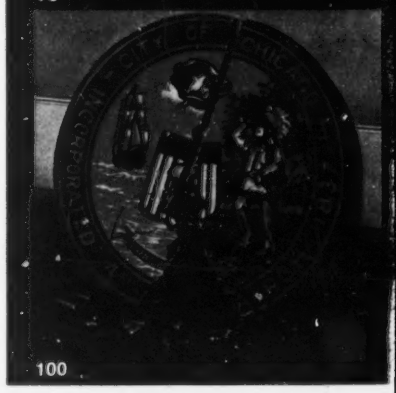

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THE U.S. ECONOMY IN THE 80's

A Comeback Decade for the American Car

Detroit is ditching old attitudes, ripping out old plant, and readying a generation of cars that promises to roll back the import invasion. Ninth in a series

by CHARLES G. BURCK

Looking into the future from present-day Detroit is an almost otherworldly exercise. Granted that great uncertainties afflict the U.S. economy as a whole, no sector faces a more impenetrable skein of unraveled assumptions and tangled probabilities than the auto industry. Hardheaded men like Roger Smith, General Motors' executive vice president for financial operations, are driven to confess their helplessness in the face of some not so very improbable scenarios, such as a complete loss of Mideast oil. Since there is no way to make rational plans to deal with that kind of disaster, Smith observes, he must simply assume that it won't happen. Even dealing with known factors is straining the industry's financial and managerial resources to the breaking point.

The problems that plague the auto industry are not merely those of a business cycle—though the recession is now compounding the slump in sales that began last summer and is likely to prevent any real recovery before sometime next year. What has made this period so bitter for Detroit, however, is an abrupt, fundamental shift in the car market.

Within the space of a few months last year, the twin hammerblows of gasoline shortages and sudden price increases demolished the plans of all U.S. automakers, including the most farsighted. Unlike the panic of 1973, which produced only a short-lived obsession with economy, the upheaval of 1979 seems to have changed forever the American consumer's tolerance for fuel-inefficient cars. Because the shift caught Detroit's product planners unprepared, imports have grabbed a record 27

Research associate: Renée Leggett

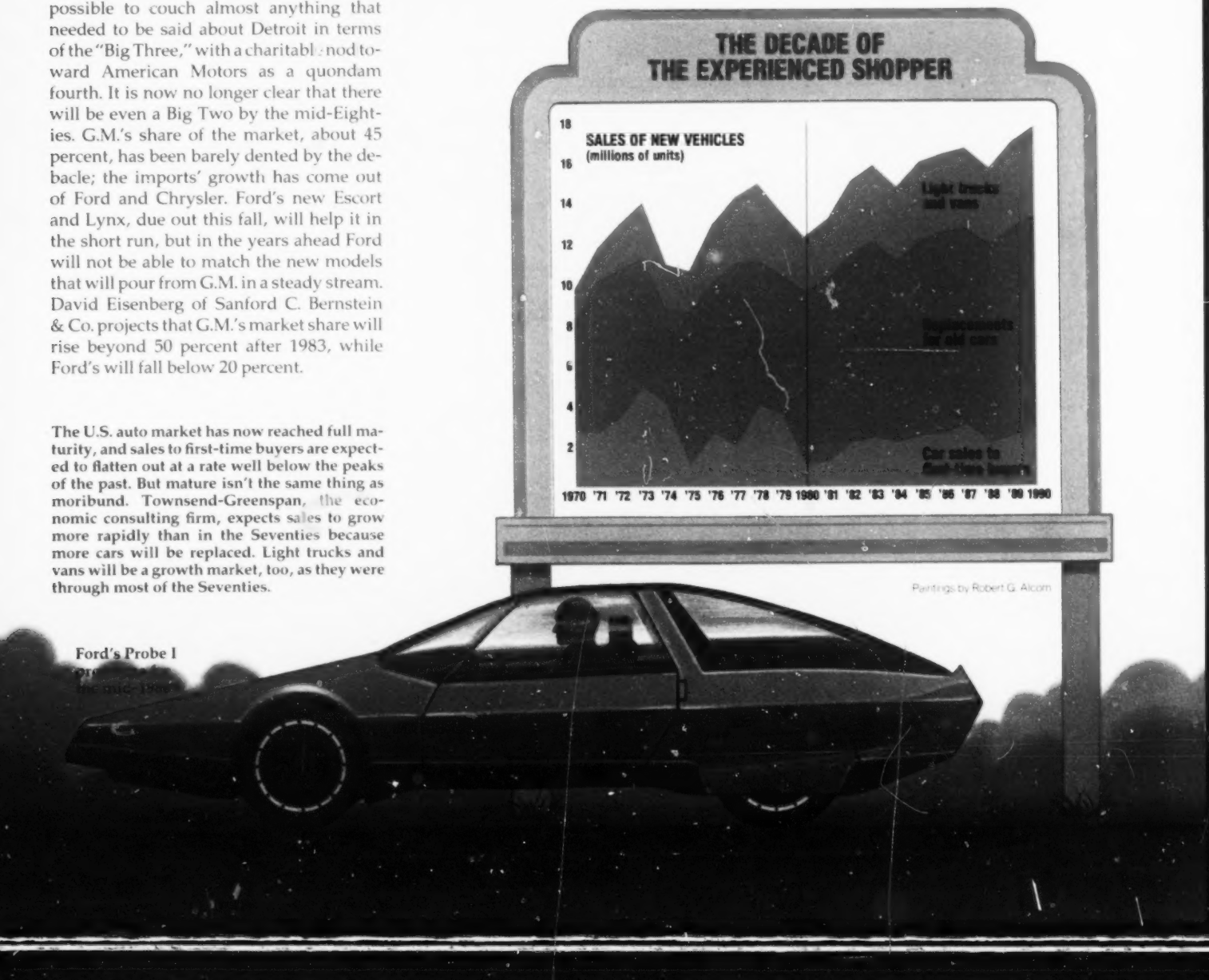
percent of the market, up more than ten percentage points in sixteen months. Detroit will be going into next year's stronger market with a somewhat more salable lineup (see page 65). But no real end to the industry's turmoil is in sight before 1984 or so. It will take that long to adjust all of the product mix to the new market conditions.

The "Big One"

When the dust settles, the industry may look quite different. Ten years ago it was possible to couch almost anything that needed to be said about Detroit in terms of the "Big Three," with a charitable nod toward American Motors as a quondam fourth. It is now no longer clear that there will be even a Big Two by the mid-Eighties. G.M.'s share of the market, about 45 percent, has been barely dented by the debacle; the imports' growth has come out of Ford and Chrysler. Ford's new Escort and Lynx, due out this fall, will help it in the short run, but in the years ahead Ford will not be able to match the new models that will pour from G.M. in a steady stream. David Eisenberg of Sanford C. Bernstein & Co. projects that G.M.'s market share will rise beyond 50 percent after 1983, while Ford's will fall below 20 percent.

Nonetheless, there is a big difference between a painful readjustment and a funeral. A future car market does exist, perhaps cruel in its indifference to who supplies it but inexorable in its need to be satisfied. The automobile will continue as the dominant means of transportation in the U.S. for as long as anyone can foresee. Many people can trim their driving, but few could eliminate it, since there are no practical substitutes for most automobile travel in a suburbanized society. Old cars will have to be replaced, and new ones added to those already on the road; the game will go on for the players willing and able to compete.

The next ten years, in fact, will generate quite a decent demand for automobiles, according to projections prepared for FORTUNE by Townsend-Greenspan & Co. New-car sales should grow to 13.4 million in 1990, which is 2.7 million more than last year. That translates into an av-



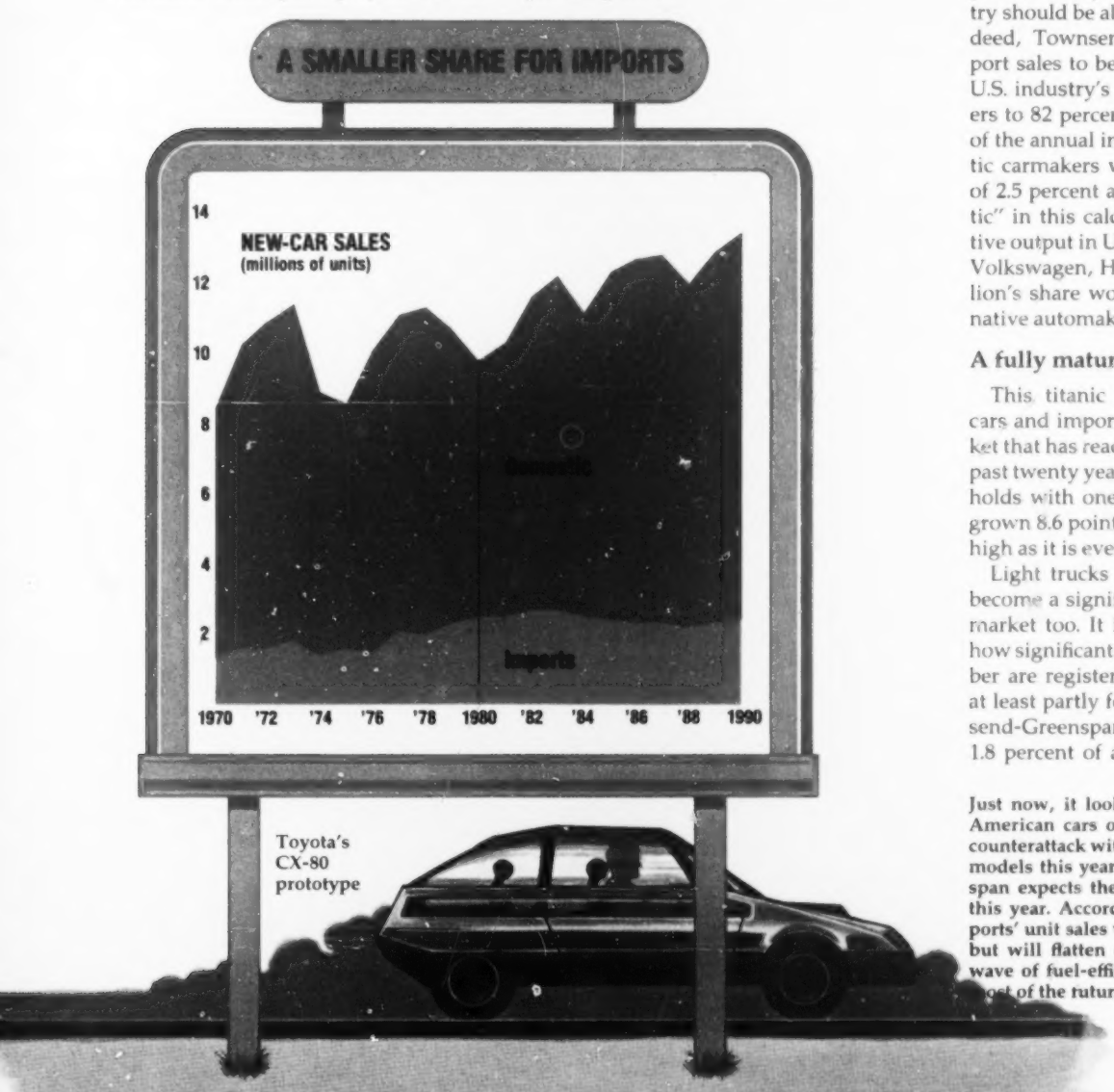
Paintings by Robert G. Alcorn

The U.S. auto market has now reached full maturity, and sales to first-time buyers are expected to flatten out at a rate well below the peaks of the past. But mature isn't the same thing as moribund. Townsend-Greenspan, the economic consulting firm, expects sales to grow more rapidly than in the Seventies because more cars will be replaced. Light trucks and vans will be a growth market, too, as they were through most of the Seventies.

Ford's Probe I

erage growth rate of 2.1 percent a year —not dazzling, certainly, but quite a bit better than the growth in the past decade, which has averaged out at just over 1 percent a year. Arvid Jouppi, a Detroit automotive analyst, notes that the average industry growth rate for the past fifty years was 2.5 percent; he regards the 4-plus percent average of the post-World War II era as extraordinary.

Townsend-Greenspan's projections rest on some of those moderate assumptions necessary for rational planning—e.g., that gasoline *will* be available, and at prices that are not prohibitive. They fall toward the high end of such forecasts—other estimates run as low as 1 percent, which is what Arthur D. Little projects. Among the automakers themselves, General Motors agrees with the Greenspan estimate, while Ford expects no more than about 1.4 percent growth.



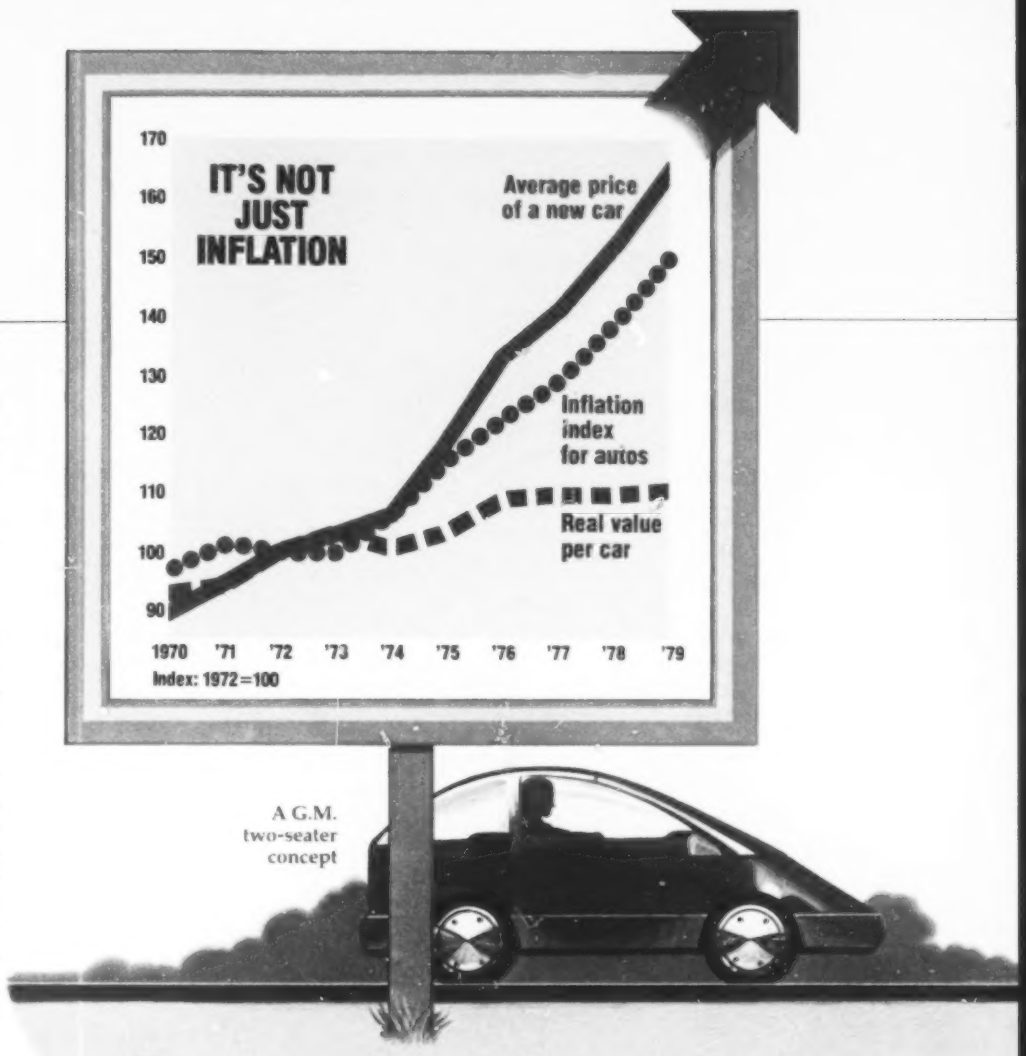
From the viewpoint of the U.S. industry, the news should be even better than the overall increase in sales suggests. The past decade was no prizewinner for the market as a whole, but it was even worse for the home team: all the growth went to imports, and domestic-car sales actually shrank fractionally between 1969 and 1979. Once it has completed its expensive transition, which will require rebuilding its plant virtually from scratch, the U.S. industry should be able to reverse that trend. Indeed, Townsend-Greenspan expects import sales to be held nearly flat, while the U.S. industry's share of the market recovers to 82 percent. In grabbing virtually all of the annual increase in sales, the domestic carmakers would enjoy a growth rate of 2.5 percent a year. To be sure, "domestic" in this calculation includes the putative output in U.S. plants of companies like Volkswagen, Honda, and Renault. But the lion's share would be divided among the native automakers.

A fully matured market

This titanic battle between American cars and imports will be fought in a market that has reached full maturity. Over the past twenty years, the percentage of households with one or more automobiles has grown 8.6 points to 83.5 percent—about as high as it is ever likely to get.

Light trucks and vans, of course, have become a significant part of the consumer market too. It is difficult to pinpoint just how significant because an unknown number are registered to businesses but used at least partly for personal driving. Townsend-Greenspan's estimate is that another 1.8 percent of all households have access

Just now, it looks as if imports are running American cars off the road. But Detroit will counterattack with four new front-wheel-drive models this year and next. Townsend-Greenspan expects the import penetration to peak this year. According to this forecast, the imports' unit sales will continue rising into 1983 but will flatten out thereafter, as wave after wave of fuel-efficient domestic models claim most of the future growth.



No one who has stepped into an auto showroom needs to be told that prices have gone through the roof. Inflation accounts for much of the increase, and qualitative improvements—like more efficient engines—for the rest. The Bureau of Labor Statistics includes emission controls and safety equipment in the latter category, which will seem a dubious proposition to some consumers. Even so, because of the trend toward smaller cars, the real (inflation-adjusted) value of the average car sold hasn't been rising as rapidly as it used to. That has been bad news for the industry, which enjoys higher margins at the top of the line.

to trucks and vans, and that another half percent will by the end of the decade. The remaining 14.2 percent of households that will not have a set of wheels of any description are to be found in places like Manhattan, where car ownership is often neither practical nor desirable, or they are composed of people too old, poor, or sick to have a vehicle.

Jaded veterans

New household formations won't add much punch to the market either. They are expected to peak in 1982, and in any case are not as reliable a guide to new-car purchases as they once were thought to be. People setting up house together these days, with or without marriage licenses, are apt to bring one or more cars to the union. These householders made their entrance into the auto market during their teenage years, when they streamed out of motor-vehicle bureaus across the land clutching new licenses and clamoring for their first cars. Now they are jaded veterans of the replacement market, which will increasingly be where the action is.

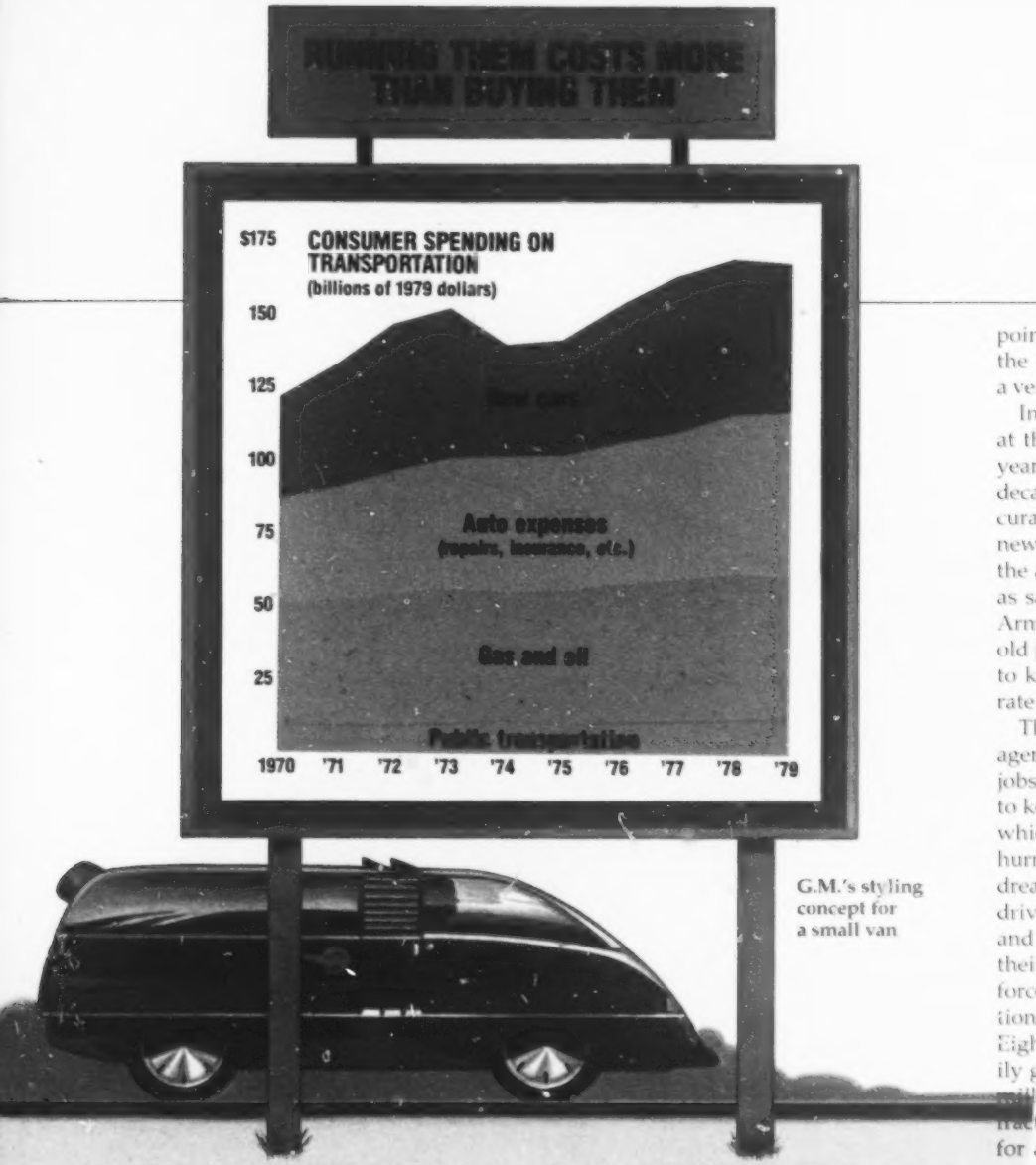
Households with more than one car are the wild card in the deck. Between 1959 and 1979 the number of such households more than tripled, from 11.2 million to 36.6 million. Last year, 36.7 percent of all households—equal to 43.9 percent of all households with cars—had two or more cars.

This cluttering of the American driveway was brought about by several different forces. The postwar babies came of age, and wives began to go to work in ever-increasing numbers. Families migrated to areas where each grown member needed his or her own car. And the Me Decade's big-buck materialists plunged heavily on leisure-time wheels—vans, pickups, off-the-road vehicles, motor homes.

These stimuli won't be felt so strongly during the years to come. People are still moving to the Sun Belt, the suburbs, and small towns, but in diminishing numbers. As often as not, they are already fully equipped with cars when they make the move. The 1980's will also see a sharp contraction in the ranks of license-age teenagers, and in the number of spouses who are both willing and able to drop brooms and march off to work. Townsend-Greenspan's projections call for a growth of only 2.4 percent in multivehicle households. Because many will be young families with two wage earners and no teenagers, two cars may suffice.

Still, consumers could confound the projections if they come out of the recession feeling ready to indulge in the long-anticipated pleasure of owning, say, a sports car or a new, fuel-efficient pickup truck. Yet another possibility is a proliferation of specialized vehicles. Catch one of Detroit's more expansive marketing people in an optimistic mood—no easy trick these days, to be sure—and he will sketch a picture of a "typical" middle-income family that needs a dazzling variety of vehicles to satisfy its basic transportation needs: a frugal, two-seater commuter car, a sporty but efficient four-passenger job, a truck or other plaything for weekends, and a six-passenger sedan for family outings.

Many families will have the money for this kind of life if they want it. Incredible as it may seem to recent victims of showroom shock, new-car expenditures as a percent of disposable income have actually been declining, slightly but almost constantly, since the 1950's. For the



G.M.'s styling concept for a small van

Some 32.4 percent of the consumer's transportation dollar goes for maintaining and operating cars. Spending on new cars, including the cost of financing, increased some 28 percent in constant dollars over the 1970's, more than the rise in any other part of the transportation budget. Surprisingly, in light of all the public furor about sky-high fuel prices, expenditures on gas and oil increased at a real annual rate of just under 2 percent. By the end of the decade, consumers were shifting to fuel-efficient cars and trying to moderate their driving habits, but the slow rise in spending mainly reflects the modest real increase in gasoline prices.

majority of new-car buyers—people with annual family incomes of $20,000 or over—the trend should continue despite the likelihood of soaring new-car costs. And there will be plenty of those relatively well-heeled families. By 1990, nearly a third of all American families will have incomes ranging from $25,000 to $50,000 (in 1977 dollars), and another 28 percent will be in the $15,000-to-$25,000 bracket. The notion that they will choose to spend large chunks of that income on fleets of cars, however, remains very much conjecture.

A much more solid possibility is that car owners as a group will abandon old cars for new ones at a somewhat faster rate than they did in the 1970's. That is the really crucial question in this now mature industry—the size of the replacement market—and it is much more intricate than is conveyed by the common-sense notion that old cars wear out and have to be scrapped. They do, of course, but the scrappage rate can vary by a percentage point or so, and that variation, applied to the 100 million cars now on the road, has a very large effect on new-car sales.

In the prosperous Sixties, scrappage ran at the high average rate of 8.15 percent a year. The Seventies were a very different decade. Times were harder—or, more accurately, they seemed to be. The cost of new cars took off, partly because of features the average driver had no desire for, such as safety devices and catalytic converters. Armies of teenagers were waiting to buy old junkers and do the repair work needed to keep them on the road. The scrappage rate fell to an average of 7.09 percent.

The trends are changing again. The teenagers of the Seventies now have full-time jobs, and, in general, no younger brother to keep the junker alive. The 1971-74 cars, which attempted to satisfy Washington's hurry-up demands for cleaner air, are dreadful gas guzzlers and not much fun to drive. Many of them are rust prone as well and are winding up in scrap heaps before their normal time. Allowing for all those forces, the Townsend-Greenspan projections put the average scrappage rate in the Eighties at 7.6 percent. Applied to a steadily growing fleet of cars on the road—141 million in 1990 vs. 86 million in 1970—that fractionally higher scrappage rate accounts for almost all of the expected increase in car sales.

Will the buyers like them?

This forecast assumes, of course, that the consumers will be pleased with the end result of the most radical and sweeping change in a fleet of cars ever undertaken anywhere in the world. When General Motors' five-passenger, 2,500-pound X-cars were introduced last year, the "compact" market slot they nominally filled was the third one down from the biggest in a five-class hierarchy. Within three years or so, those cars will be among the biggest of the new fleet, exceeded in size and carrying capacity only by a relatively small number of six-passenger cars. Below them will be a mix of four- and two-passenger vehicles filling new, yet unnamed market categories. If consumers surprise the industry

continued

A Silent Spin to the Supermarket

Like solar energy, the electric car has long been one of those technological tantalizers writers use to dress up their futurology. But the 1980's should finally see production get under way in earnest. G.M. has taken the lead and all but promised to build both electric cars and vans—probably not before 1985, but not too much later than that. Other major automakers say that they, too, will be able to deliver electrics during the last half of the decade.

The new electrics will be real, if diminutive, automobiles—not golf carts with roofs. In fact, they'll be a subdivision of a distinct new market category—the urban or suburban two-seater—that will include some gasoline-powered cars. G.M. has set minimum standards for its electric that include a 100-mile range and a 50-mile-per-hour top speed.

once again by becoming inured to higher gasoline prices, Detroit expects to accommodate any resulting demand for bigger cars through higher sales at the upper end of the new size range.

Most of the new fleet will consist of front-wheel-drive cars with their engines mounted transversely (crosswise), a combination offering the most interior space in relation to overall car size and weight. Ford's plans are not yet fixed beyond the front-wheel-drive Escort and Lynx. The company has already invested daunting sums in conventional front-engine, rear-wheel-drive designs, which its engineers argue can be refined to provide most of the space efficiencies of their front-wheel-drive competitors at lower cost. But if it follows that course, Ford could be alone out there, bucking the dominant market trend. By 1985, a good 90 percent of G.M.'s cars are expected to have front-wheel drive. Chrysler, if it survives, will convert entirely to front-wheel drive.

The gas mileage of these cars will stand in vivid contrast to the efficiency of cars already on the road, which averaged fifteen miles per gallon last year. Today's new domestic car averages better than twenty-one miles per gallon, and the federally mandated 1985 new-car fleet average of 27.5 miles per gallon, which only a year ago promised to be too big a change for consumers to accept, will now be met with room to spare.

Though lightweight materials will be used extensively, most of the gains in economy will come from downsizing, and from more efficient engines. With the exception of the electric car (see box above), no strikingly new propulsion technologies are likely during the 1980's. The diesel is expected to power about 20 percent of the new-car fleet by 1990. But diesel fuel will cost as much as or more than gasoline by then, and most people will still be driving cars powered by the venerable spark-ignited reciprocating engine.

Still, great improvements are being won through painstaking refinement of engines, drivelines, and tires. None is likely to be more important or pervasive than electronic controls, which will extract virtually peak efficiency from engines under just about all driving conditions. Increasing numbers of engines will get an extra burst of performance and efficiency from fuel-injection systems or turbochargers—compressors, driven by exhaust gases, that force extra fuel and air into the cylinders to provide additional thrust when it's really needed.

A new wave of "slippery" cars

For all of their experience in building engines, automakers are still baffled about much of what goes on inside them during the combustion process. Intense research during the 1980's is expected to bring further understanding, and with it large gains in economy and performance. Stratified charge, for example, is a technique for getting better combustion by using a small, super-rich charge of fuel and air to ignite a leaner mixture. The stratified-charge engines already on the market probably aren't the best answer to this technical challenge. Honda and some other Japanese makers use a third valve in each cylinder. Ford's PROCO (for "programmed combustion") engine, not yet in production, requires expensive high-precision injectors. One goal of basic combustion research is to find a chamber shape that could achieve some of the benefits of stratified charge without added hardware.

The coming waves of cars will distinguish themselves from those of the past in other, more visible ways. Engineers have learned that aerodynamics influences fuel economy even at relatively low speeds, and designers will push the limit of what they think the public can tolerate in their efforts to shape "slippery" cars. One important result, beyond the gains in economy, may be an accelerated obsolescence of older cars, which would help speed up the replacement rate. A turning point of sorts is already apparent in parts of the country, such as California, where small cars are most prevalent. After a certain percentage of the cars on the road shrink, the remaining large ones begin to look as awkward and out of place as sumo wrestlers in a ballet class.

One thing that won't shrink is the price tag. In the golden past, the point was often made that a new American car could be expected to cost about the same per pound as hamburger. Even with soaring meat prices, car prices are now creeping upward along the livestock index past sirloin and toward porterhouse—on their way, perhaps, to filet mignon.

Higher prices will reflect higher costs of everything from emission controls and safety devices to raw materials and labor. But fears that the industry will not be able to make money on its new cars are grounded in a misconception. Yesterday's small American car was unequivocally a lesser product than the big car, and its general meanness of design and execution left the consumer in little doubt that he was supposed to move up to something better. Tomorrow, when the small car is the norm, pricing will depend less on size than on the levels of luxury, amenity, and quality. There may still be a bottom-of-the-line car with thin or negative margins, but the majority of car buyers will continue to want—as they always have—something better.

Indeed, consumers never did set out to buy their cars by the pound; manufacturers simply priced them that way. "We had twenty-five years of 'bigger is better' marketing, which implied that bigger was worth more," says Thomas A. Staudt, American Motors' vice president of marketing, and former director of marketing

continued

The Japanese excel at "fits and finishes"—moldings that match, doors that don't sag.

for Chevrolet. "But that idea already has been disproved. G.M. started the process when it marketed the downsized cars in 1977 by pointing out that the consumer was actually getting *more* in the way of headroom, legroom, economy, and so on." Since the X-car was introduced, General Motors has raised the price by an average of $940 a unit, so that it now often costs as much as the company's intermediates after dealer discounts are figured in.

Taking on Japan

Let us assume, then, that the new breed of American car will be rated as well by consumers as it is by Detroit's engineers and market researchers. Even so, the industry will face a battle royal if it is to live up to Townsend-Greenspan's expectations that it can recapture the market share lost to imports over the past decade. The Japanese, in particular, have steadily increased their penetration, making a bad joke out of Detroit's decade-long string of mumbled threats to push them back into the Pacific. It is they who are doing the pushing, and the Americans who appear to be retreating—back into the north-central states.

A considerable body of well-informed opinion holds that the foreign competition has permanently secured its grasp on the market. David Power, who studies trends in the auto market from California, where imports now account for half of all sales, thinks that consumers who have got used to foreign cars will not be lured out of them by anything the U.S. can offer. He argues that imports—mainly Japanese—may eventually do as well nationwide as they have in California.

The most conspicuous reason for the Japanese success is high gas mileage, of course. But the Japanese deserve credit for far more than the circumstantial triumph of being able to supply efficient cars to a country caught short of them. They excel in the quality of what automakers call "fits and finishes"—moldings that match, doors that don't sag, materials that look good and wear well, flawless paint jobs. Their standard equipment includes many items that are optional extras on U.S. cars, like radios and tinted glass, along with some thoughtful touches that are unavailable on many domestic cars at any price—rear-hatch releases controlled from the driver's seat, for example, five forward speeds, and reclining seats. "Everybody does market research, but the Japanese are better listeners," remarks Donald Hurter, manager of Arthur D. Little's automotive-technology unit.

Most important of all, Japanese cars have earned a reputation for reliability, borne out in the generally lower rate of warranty claims they experience. Technically, most of the Japanese cars are fairly ordinary, but a sprinkling of ingenious technologies—Honda's stratified-charge engine, Mitsubishi's "silent shaft" technique for damping the vibrations inherent in four-cylinder engines, and Mazda's rotary—have invested the country's entire output with the aura of advanced engineering.

Detroit is blamed by just about everybody from President Carter on down for paving the way for imports out of sheer stubbornness. It persisted willfully—so the argument goes—in trying to shove gas guzzlers down the public's throat. The argument overlooks two things: the public wanted those big cars, and the government encouraged it to want them by holding gas prices down. Just before the Iranian crisis, gasoline cost no more in real dollars than it had seven years before. Small cars languished in import and domestic showrooms alike, and Ford was rationing V-8 engines among its customers.

Detroit's failures were both less egregious and more complex than stubbornness. The fuel scare obviously pushed a great many people over some sort of demarcation line in their attitudes toward imports, but most of them were far closer to that line than U.S. automakers had been willing to admit.

The fundamental problem was that the industry lost touch with its consumers' changing tastes—or, perhaps more precisely, was led astray by its long memory of what the consumer had wanted in years past. From the end of World War II on through the 1960's, manufacturer and consumer pretty much agreed that automotive progress meant more size and more power to take advantage of a rapidly improving highway network. It also meant more comfort, more flash, and more dazzle. The industry tried to provide these features at the lowest possible production costs, and it troweled over rude craftsmanship with gaudy trim. The customers loved it.

Nobody can pinpoint the moment when consumers began to have second thoughts about what "more" really was. It may have been twenty years ago, when Volkswagen demonstrated clearly that cheap cars could be neatly and solidly built. The shift was well under way at the end of the Sixties, when the values of the cultural revolution began to filter into mainstream America. Whenever it happened, there is no doubt Detroit slept through the discovery.

Belatedly, the catch-up has begun. "The values of car buyers have changed dramatically, and we're attacking our work as never before," exults Harold Sperlich, Chrysler's executive vice president for engineering and product development. "In designing a car, we're looking to see how we can ensure manufacturability for perfect fit and beautiful joinery, and learning how to get superb paint—all the things that make up visual impact."

That's certainly not the sort of language most of Detroit's customers would use in describing their present cars. To date, the industry's best efforts have fallen short of expectations. The X-cars were the beneficiaries of the most massive attempt ever in the U.S. to build a high-quality small car. Those efforts included endless testing and close attention not only to basic design but to the layouts of assembly lines. Nonetheless, plenty of X-car buyers are disappointed with what they actually got.

Mahwah vs. Tarrytown

Building in the kind of reliability—not to mention the "joinery"—that the consumer now expects will certainly not be easy. But it is hard to accept the idea, implicit in some critical views of the industry today, that the U.S. is simply incapable

continued

On the Road to 1985

The shape of the future will become clearer this fall when Ford and Chrysler come to market with their new small front-wheel-drive cars. The photo at right is the first to be released of the Ford Escort, which can lay claim itself to a couple of firsts. It and its sister, the Mercury Lynx, are the first cars from Ford since the Model A that don't contain a single component used in earlier models. They are also the first U.S.-built "world cars," designed to be made and sold in many countries. Built on a subcompact wheelbase, they get about thirty miles to the gallon and have interiors spacious enough to put them in the compact category.

Like G.M.'s X-cars, Chrysler's K-cars will be compacts that offer as much interior space as intermediates. Next spring G.M. will introduce its J-cars—sporty replacements for the Monza class—followed in the autumn by its first front-drive intermediates. The pace will pick up in the 1983 model year, and by 1985 there are likely to be only a scattering of rear-drive cars still in production.

Anthony Edgeworth

The 1981 Ford Escort

of making things well. Volkswagen's U.S.-built cars are acknowledged to be the equal of their German cousins—and maybe even better. The X-car problems, G.M. argues, can be traced to the start-up of its all-new Oklahoma City plant, and an all-new work force. "The problems are being solved with fine-tuning—and rapidly," insists G.M.'s Roger Smith.

All too often, the industry has been pleased to let its workers take the rap for poor quality. Most recently, when Ford announced the permanent closing of its Mahwah, New Jersey, plant last April, its references to the plant's poor quality-control record were generally interpreted as a condemnation of the work force. Ford made no attempt to explain otherwise.

In fact, quality control is a management problem. "You cannot lay the problem on the workers," says G.M.'s Smith. "Quality is one of those things we and the unions have to work on together." Indeed, one of the "secrets" of the Japanese is that management listens to its workers and takes their advice—drawn, after all, from intimate experience—about ways to improve production rates and quality.

G.M. began to address such problems back in the early 1970's. One of its triumphs has been the turnaround of its huge Tarrytown, New York, plant, which was in serious trouble because of labor unrest and the poor quality of the cars coming off the line. G.M. sat down with the unions to settle long-standing conflicts between the supervisors and the work force and to develop planning methods that would incorporate workers' ideas. Tarrytown has since risen to the top rank among G.M. plants for quality control, and the company is beginning to apply the lessons learned there to other plants.

Starting fresh inside four walls

As daunting as its problems look today, the industry has an unprecedented opportunity to reshape itself by stripping its old plants more or less bare and rebuilding from inside out. "The U.S. auto industry is probably the first industry in history ever to 'de-mature,'" marvels William Abernathy, professor of management at the Harvard Graduate School of Business Administration and a specialist in the management of technological change. Within the next few years, it will become essentially a new industry.

The difference is clearest at G.M. Despite the problems at Oklahoma City, the $2.7 billion the company invested in the X-cars is paying off in steady improvements in quality control—those "fits and finishes" that gave the Japanese their inroads—and in new standards of manufacturing efficiency. By 1985, when its big round of transition to new models is complete, virtually all of General Motors' production facilities will have been rejuvenated. "The opportunity to rebuild plants doesn't come very often," remarks Roger Smith. "It's an engineer's dream."

At Ford and Chrysler, the changeover is rougher, because it reflects sudden reactions to market conditions rather than G.M.'s acceleration of a program for measured change. Ford, for example, will probably have to junk some relatively new machinery, including V-8 engine and transmission lines. Chrysler is dropping the number of its basic vehicle "platforms" from five to three, and has so far shed some 20 percent of its total capacity. Nonetheless, by the mid-1980's, the surviving portions of both companies' car lines will be essentially brand new. Their engineers, no less than G.M.'s, will have the chance to build in both efficiencies and techniques for quality control that simply did not get attention in the old days.

In the meantime, the Japanese themselves are concerned about the coming competition. Toyota and Datsun, in particular, will have to abandon their old models, which are virtually all conventional front-engine, rear-wheel-drive designs, and throw themselves into an extensive renovation effort. Silhouetted against two-ton behemoths, the Japanese models look clever and economical; compared with a new generation of space-efficient front-wheel-drive cars, they are cramped and anachronistic.

For all its weaknesses, the U.S. auto industry remains one of the world's formidable industrial concentrations. Like the U.S. itself, it grew complacent and self-important during years of unchallenged supremacy. With awakened management, it has started on the long road back. F